



THEALLIANCE SOUTHEAST



INTERNAL AUDIT/REVIEW GUIDE FOR CHURCHES

Psalm 24:1

The earth is the Lord's, and everything in it, the world, and all who live in it.

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This guide was created to assist the local church with its responsibility of keeping accurate records by providing some guidance outlined to perform an internal audit.

Internal audits (reviews) are usually performed by members of the church (*at least two*) or by persons closely associated with the church (*i.e. the district office staff, or other local Alliance church members*). The bookkeeper should be available for answering questions, however, should not be a part of the audit/review process.

As provided on page 17 of The Alliance Finance Manual;

The business world accepts an annual audit as a prudent practice. It is also a good practice for churches.

The audit consists of a variety of tests, questions, and review procedures. These help determine whether all financial transactions have been properly accounted for, and have been represented fairly in the financial reports. Usually, the audit also evaluates the procedures the church is using to account for finances.

The audit is not a reflection on the competence or integrity of the treasurer. Rather, it is a routine procedure designed to protect both the treasurer and the church.

The governance authority will normally appoint several individuals to conduct the audit each year. It is helpful if the people who are appointed are knowledgeable in finance or accounting. However, this is not critical, especially if the auditors use the sample checklist provided.

The church also may consider having a professional, independent audit (external audit) or review performed by a certified public accountant. Many churches do this periodically, such as every two or three years. While this is expensive, it may be worthwhile if:

- you value the suggestions this kind of audit can generate
- the church's finances are complex (for example, if your church has a school, day care center, or investments)
- the church is obtaining bank financing or considering other transactions where independently audited financial statements are required

Second Corinthians 8 and 9 outline basic principles of Christian giving. From God's perspective, giving to the Lord through the church is an act of worship to Him. It brings a variety of blessings, as does all obedience to God's principles. Those who serve as the caretakers of His offerings have great responsibility to safeguard the church's assets. This system of checks and balances helps you to serve God with excellence.

FINANCIAL AUDIT PREPARATION CHECKLIST

Items needed to perform an internal audit review or assisting a CPA to perform an audit:

- Monthly Bank & Investment Statements (include Auxiliary accounts i.e. Benevolent, Alliance Women, etc., if any);
- Bank Reconciliation Statements
- Voided Checks file
- Vendor files (include Credit Card reconciliation)
- IRS (ie: 941/944 quarterly reports)
- Cash Receipts Log
- Check Register or whatever system is used to track payments (i.e. QuickBooks).
- Petty Cash & Log
- Governing Board Minutes
- Monthly and Annual Reports, along with a copy of the Annual Budget
- List of Internal Controls set by the board or other Policies and Procedures (i.e.; Expense Reimbursement policy)
- Time sheets for hourly employees
- W-9's (required for all service related payments to unincorporated individuals (i.e.; contracted labor or honorariums of \$600.00 or more annually)
- OTHER: _____
(bookkeeper's input)
- OTHER: _____
(bookkeeper's input)
- OTHER: _____
(bookkeeper's input)

FINANCIAL AUDIT TASK LIST:

1. *Select several monthly bank statements, including the final statement for the fiscal year, and:
a) ensure that reconciliations have been fully completed,
b) trace selected items from the reconciliation to the bank statement and the accounting records,
c) see that all voided checks are accounted for,
d) on a test basis, see that checks are properly endorsed by the party they were issued to,
e) check to see that outstanding checks and other items clear the bank or are otherwise disposed of on a timely basis, and
f) investigate the nature of "miscellaneous" or unusual items.*
2. *Count petty cash. The total of cash and receipts should equal the entries and balance on the "Petty Cash Log". If not, investigate.*
3. *On a test basis, trace cash receipts and disbursements from the original document (such as Cash Receipts Summary or checks) through the accounting records, and summary totals to the various financial reports.*
4. *Review Cash Receipts and Disbursements Journals for unusual items. Investigate any noted.*
5. *On a test basis, check to see that there is proper authorization and documentation for each Cash disbursement (such as an invoice or receipt, within approved budget, specific approval of Governing Board – including large or unbudgeted items).*
6. *Review other documents and records (test basis) to see that they are being used in accordance with established policies and procedures. For example, are Cash Receipts Summaries signed by two individuals who counted the offerings? Are investment or designated funds being used or invested according to policy?*
7. *Check to see that all payroll and other tax reports were filed on a timely basis (IRS Form 941).*
8. *Test weekly, monthly and especially the annual reports to the congregation and Governing Board for accuracy by tracing totals back to the accounting records.*
9. *Check to see that all monies designated for the Great Commission Fund, or other purposes, are being sent on a timely basis to their intended receivers.*
10. *Determine whether accounting duties are adequately segregated in light of financial personnel available.*
11. *Audit records of auxiliary organizations or accounts (such as Great Commission Women, Alliance Men, or Benevolence) that maintain their own financial records, using steps similar to those outlined above.*
12. *Time Sheets for Hourly Employees are test-verified against payroll.*
13. *Verify that W-9's are filled out and signed by those not on staff payroll, but receive remuneration for services provided (i.e. janitorial, lawn cutting services, honorariums etc.)*
14. *Prepare reports of your findings to the Governing Board, congregation and the District Office.*

INTERNAL AUDIT WORK DOCUMENT WITH NOTES:

Use the following work-flow document to take notes (i.e. write down check #'s and dates of items you tested, make notes of anything that may require further looking into) as you work through the task list.

1. Bank Statements
 - a.
 - b.
 - c.
 - d.
 - e.
 - f.
2. Petty Cash
3. Cash Receipts and Disbursements
4. Cash Receipts and Disbursement Journals
5. Authorization and Documentation
6. Review of Policies and Procedures
7. Payroll and Tax Reports
8. Monthly and Annual Reports
9. Designated Funds
10. Voided Checks
11. Segregation of Duties
12. Auxiliary Accounts
13. Time Sheets of Hourly Employees
14. W-9's
15. Audit Report

Sample Audit Review Report



Date:

To the Governing Board of XX church,

We, the undersigned audit committee, reviewed the financial records of XX Church for the year 20XX. Per the provided Financial Audit Task List, it is of our opinion that:

- Audit Satisfactory
- Non-conformances Found
- Observations made
- Recommendations made

At this time, we respectfully submit the following recommendations:

1. That an annual budget be established for the general operating fund of the church.
2. That designated funds be disbursed monthly, rather than quarterly. This would keep the church from holding onto large sums of money that could create a financial hardship to the church when disbursing to their intended receiver.

Respectfully submitted:

Signature _____

Signature _____

Printed name _____

Printed Name _____